MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BFN 2054 – PORTFOLIO MANAGEMENT

(All sections/ Groups)

13 OCTOBER 2018
9:00 A.M. – 11:00 A.M.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of **3** pages with **5** questions.
2. Attempt all the questions. The distribution of the marks for each question is given.
3. Please answer all questions in the Answer Booklet provided.

Please Answer All the Questions

Question 1 (20 marks)

Encik Ali has received a huge amount of money from his business and he has been thinking of reinvesting the money in equity market. He has been collecting information on Stock Game and Stock Della. The information on the probabilities of returns of the stocks that he has collected is as below:

Probability	Stock Game Return (%)	Stock Della Return (%)
0.10	(12)	(18)
0.20	1	6
0.40	8	15
0.20	15	25
0.10	25	30

(a) Calculate Stock Game and Stock Della:

(i) Expected return, (5 marks)

(ii) Standard deviation, and (8 marks)

(iii) Coefficient of variation. (4 marks)

(b) Based on the information in (a), explain or evaluate the stocks and state which stock is riskier. (3 marks)

Question 2 (20 marks)

a) What is the current value of Banda Berhad stock to an investor who has a required rate of return of 12 percent? The current dividend is RM1.00 and the dividends are expected to grow 8 percent per year for 3 years. At the end of 3 years, the investor expects to sell the security for RM76. (10 marks)

(b) Free Investment Company is considering the investment in the bonds of Tata Berhad, a medium capital company which is listed in Bursa Malaysia. Each unit of bond has a par value of RM100 and a coupon interest rate of 10%. The bonds will mature in five years. Free Investment Company's required rate of return from the bond investment is 12%.

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Calculate the bond prices of Tata Berhad if:

(i) the coupon interest is payable on an annual basis. (4 marks)

(ii) the coupon interest is payable on a semi-annual basis. (4 marks)

Question 3 (20 marks)

(a) An investment portfolio's total risk can be divided into diversifiable and undiversifiable risk. Explain the differences between these TWO (2) types of risks. (10 marks)

(b) Briefly explain the pricipal investment objective of a life insurance company.

(10 marks)

Question 4 (20 marks)

(a) Why is an infrastructure investor usually more concerned with the cash flow rather than the potential for capital gains on the investment?

(10 marks)

(b) A portfolio has a primary objective of capital appreciation and a secondary objective of growth of income. If you feel bearish about the stock market as a whole, is it appropiate for you to reduce yor equity holding to zero? Why or why not?

(10 marks)

Question 5 (20 marks)

The following information is available for the performance of Jose Mutual Fund:

	Jose Mutual Fund
Average Return	19%
Standard Deviation of Returns	35%

The risk-free return during the sample period was 6% and beta was 1.5.

(a) What is the Sharpe measure of performance evaluation for Jose Mutual Fund?

(5 marks)

(b) What is the Treynor measure of performance evaluation for Jose Mutual Fund?

(5 marks)

Continued...

(c) Calculate the Jensen measure of performance evaluation for Jose Mutual Fund.

(5 marks)

(d) Can you have a negative Treynor ratio?

(5 marks)

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